

Imputed Income & Tax Fact Sheet for Domestic Partner Benefits

When you enroll your domestic partner or your partner's child in one of the City of Surprise's sponsored plans, the IRS considers the City's contribution toward the additional coverage as your imputed income. Your imputed income is the City's contribution toward the additional coverage for your domestic partner and/or your partner's child.

The payroll deduction amount to cover your domestic partner and/or your partner's child is a post tax deduction - unlike medical coverage for other enrolled family members.

Example A: If you enroll your domestic partner and his or her child, your imputed income would be the difference between the City's contribution for employee only coverage (for you) and family coverage.

Example B: If you enroll your domestic partner, your imputed income would be the difference between the City's contribution for employee and spouse coverage and employee only coverage.

Imputed income is separate from - and in addition to - your monthly plan cost. Imputed income applies even if you pay no monthly cost for your medical plan. The amount of your imputed income depends upon the plan in which you are enrolled and the level of your coverage.

Imputed income is taxable - that is, it increases your taxable gross income for federal and state income taxes as well as for FICA (Social Security and Medicare) and taxes are withheld from your paycheck. Your imputed income is reported on your annual Form W-2.

Based on IRS requirements, imputed income applies only for coverage of an eligible family member who is not your tax dependent. If you will claim your domestic partner (or your partner's child) as your tax dependent, you should have no imputed income. See "When You Claim Your Domestic Partner and/or Your Partner's Child as Your Tax Dependent."

IMPUTED INCOME AND ITS IMPACT ON TAXES

ESTIMATE YOUR IMPUTED INCOME AND ITS IMPACT - USING THE FOLLOWING WORKSHEET.

1. Your monthly-imputed income for medical coverage	
2. Multiply line 1 by 12 (months of coverage in 2006) Total 2006 imputed income .	x 12 = \$
3. Multiply line 2 by your federal income tax rate (25% or other)	Estimated federal income taxes on the imputed income x .25 = \$
4. Multiply line 3 by your state income tax rate. State tax is a percentage of your federal withholding.	Estimated state income taxes on the imputed income \$
5. Multiply line 2 by 7.65% (your share of FICA) FICA taxes on the imputed income	x .0765 = \$
6. Add lines 3 (federal taxes), 4 (state taxes), and 5 (FICA)	Total estimated taxes you must pay on the imputed income \$

WHEN YOU CLAIM YOUR DOMESTIC PARTNER OR YOUR PARTNER'S CHILD AS YOUR IRS TAX DEPENDENT

Based on IRS requirements, imputed income applies only for coverage of an individual who is not your tax dependent. If your domestic partner (or your partner's child) qualifies as your tax dependent under Section 152 of the Internal Revenue Code, you should have no imputed income. To do this, the domestic partner and partner's children must: a) receive over 50% of his or her support from you for the year; and, b) have as his or her principal abode your home for the entire year, and be a member of your household.

Contact Human Resources if you will claim your domestic partner (or your partner's child) as your tax dependent or if you have any questions about imputed income for domestic partner coverage.

DISCLAIMER:

The foregoing examples are for illustration only and may not reflect your actual circumstances. The City of Surprise and its Human Resources Department are not providing you with tax advice nor are they attempting to evaluate your particular situation. You are urged to consult your own tax advisor(s) concerning the federal and state income tax and employment tax ramification from your enrolling your domestic partner or your partner's children in one of the City of Surprise's sponsored plans.